QUARTERLY REPORT

JUNE 2018

Riding the cycles

What 30 years of investing tells you about markets now

p.1 Video insight

PM Capital Global Companies Fund
ARSN 092 434 618
APIR Code PMC0100AU

PM Capital Asian Companies Fund
ARSN 130 588 439
APIR Code PMC0002AU

PM Capital Australian Companies Fund
ARSN 092 434 467
APIR Code PMC0101AU

PM Capital Enhanced Yield Fund
ARSN 099 581 558
APIR Code: PMC0103AU

CONTENTS

Quarterly video update

In this in-depth video update, Paul Moore, Chief Investment Officer and Portfolio Manager, Global Strategies, discusses:

- Where we are in the cycle and how it compares with other cycles
- Specifics on what we need to be looking for right now (and what to avoid)
- New ideas

Paul also gives an insight into what has helped shape his investment philosophy and approach.

Access the video **here.**

"You're always going to have fits and starts, but we still think [the market] is OK. The market is very much debating that now...but that is throwing up opportunities. There's some really interesting areas that have become very, very cheap."

Total returns since inception[1]

Fund		Benchmark	
PM Capital Global Companies Fund	448.2%	MSCI World Net Total Return Index (AUD)	142.9%
PM Capital Asian Companies Fund	324.5%	MSCI AC Asia ex Japan Net (AUD)	128.6%
PM Capital Australian Companies Fund	503.7%	S&P / ASX 200 Accum. Index	332.4%
PM Capital Enhanced Yield Fund	156.0%	RBA Cash Rate	92.6%

[1]Past performance is not a reliable indicator of future performance. See page 15 for Important Information. As at 30 June 2018.

Global Companies Fund

- **The Global Companies Fund** aims to create long term wealth through a hand-picked, concentrated portfolio of 25-45 global companies trading at prices that we consider, after extensive research, to be trading at prices different to their intrinsic values and may provide attractive future returns.
- **The Fund's investment objective** is to provide long term capital growth and outperform the greater of the MSCI World Net Total Return Index (AUD) or RBA cash rate over rolling seven year periods. The Fund is not intended to replicate the index.

Fund category	Global equities
Investment style	Fundamental, bottom-up research intensive approach
Number of stocks	As a guide, 25-45 stocks

Minimum investment	$20,000
Suggested investment time	7 years +
Inception date	28 October 1998
Unit trust FUM	$429.7m as at 30 June 2018
Global equities FUM	$1,114.8m as at 30 June 2018

Global Companies Fund

Paul Moore
Global Portfolio Manager

Fund performance (net of fees)	Inception Date	Exit Price ($)	3 Months	6 Months	1 Year	3 Years pa	5 Years pa	7 Years pa	10 Years pa	Since Inception pa	Since inception - total
Global Companies Fund	**10-1998**	**3.0126**	**2.8%**	**4.4%**	**14.0%**	**8.1%**	**14.6%**	**16.9%**	**11.5%**	**9.0%**	**448.2%**
MSCI World Net Total Return Index (AUD)			5.6%	6.3%	15.3%	9.9%	14.8%	14.8%	9.1%	4.6%	142.9%
Outperformance by the Fund			-2.8%	-1.9%	-1.3%	-1.8%	-0.2%	2.1%	2.4%	4.4%	305.3%

KEY POINTS

- KKR & Co. converts from a publicly traded partnership structure to an ordinary corporation
- M&A activity in the European hotel sector
- The Australian Dollar continues to weaken against the US Dollar

PERFORMANCE

The portfolio benefited from our investments in the payment networks, Visa and Mastercard. KKR & Co also assisted, as did our exposure to the US Dollar which appreciated versus the Australian Dollar.

PORTFOLIO ACTIVITY

We sold our position in casino operator SJM Holdings after it rose approximately 45% in May. Macau has continued to surprise to the upside this year with gross gaming revenue up 20% year on year. The market was pricing in strong growth for 2018-19 and valuations by the end of May were catching up with medium term prospects. In light of this we have been reducing our Macau gaming exposure over 2018 and sold out of SJM Holdings completely.

We also sold out of our position in Hispania after a takeover offer by Alzette Investments (a vehicle owned by firms advised by affiliates of Blackstone). Hispania was established in 2014 with its main objective to acquire and manage real estate assets in Spain. Its business plan involved buying undermanaged real estate assets with a focus on hotels. Our exit crystallised a profit of over 80% since our initial investment back in 2014.

OUTLOOK

KKR & Co. was both our largest individual position in the quarter and contributor to performance. KKR converted from a publicly traded partnership to an ordinary corporation on the 1 July 2018. The conversion has the potential to significantly expand the investor base and lead to a higher valuation over time. KKR is the first large private equity business to convert to a corporation, following the smaller ARES Management (also a portfolio holding) which converted in early 2018.

KKR's shares rose over 15% from when they announced the conversion plans on 3 May 2018 to the end of the quarter, outperforming peers and the broader financial sector by a wide margin. We continue to hold KKR as it is a prime beneficiary from the tailwinds occurring in the alternative fund management industry while being on a reasonable 11 times 2019 earnings multiple. Blackstone and Apollo, other investments in the alternative manager space, have said they want to wait to see how the market responds to conversions before they make any move.

Figure A: KKR closing stock price ($USD)

Our US homebuilders had a weak quarter as investors, nervous over US interest rate rises, began to price in a late cycle discount that we feel on balance to be unwarranted. While an increase in rates is a bit of a shock to a new generation of buyers used to only falling mortgage rates, the mortgage payment burden remains in affordable territory. A large deficit in housing supply, a strengthening job market and improving demographics as millennials move into prime buying age should create sufficient tightness in the market for homebuilders to grow earnings over the next few years.

Our European banking positions were also weak over the quarter. While the European Central Bank (ECB) announced in June that its quantitative easing (QE) program will finish by the end of the year, the market pushed out ECB rate hike expectations into late 2019, and if this was to occur this would put pressure on bank net interest margins and profitability. We believe this is now priced into stocks with banks trading at a substantial discount to the wider market.

Portfolio investments	Weighting
Post GFC Housing Recovery - US	12.3%
Post GFC Property Recovery - Europe	10.1%
Global Domestic Banking	32.3%
Service Monopolies	19.4%
Pharmaceuticals	3.6%
Gaming - Macau	2.6%
Alternative Investment Managers	14.3%
Other	4.6%
Long Equity Position	**99.1%**
Short Equity Position	-8.3%
Net Invested Equities	90.8%
Total holdings	37

Current stock example
Howard Hughes Corporation
Cairn Homes
Bank of America
Alphabet
Pfizer
MGM China Holdings
KKR & Co L.P.

Currency exposure*	
USD	72.8%
EUR	15.9%
GBP	5.8%
AUD	5.6%
Total exposure	100.0%

* Stated at effective value.

Paul Moore - Chief Investment Officer and Global Portfolio Manager
John Whelan - Contributing author

Asian Companies Fund

- **The Asian Companies Fund** aims to create long term wealth through a concentrated portfolio of 15-35 hand-picked companies within Asia ex-Japan that we believe are trading at prices different to their intrinsic values.

- **The objective of the Fund** is to provide long term capital growth and outperform the greater of the MSCI All Country Asia (ex-Japan) Net Index (AUD) or RBA cash rate over rolling seven year periods. The Fund is not intended to replicate the index.

Fund category	Asian (ex-Japan)[2] equities
Investment style	Fundamental, bottom-up research intensive approach
Number of stocks	As a guide, 15-35 stocks

Minimum investment	$20,000
Suggested investment time	7 years +
Inception date	1 July 2008
Unit trust FUM	$28.2m as at 30 June 2018
Asian equities FUM	$94.8m as at 30 June 2018

Asian Companies Fund

Kevin Bertoli
Asian Portfolio Manager

Fund performance[1] (net of fees)	Inception Date	Exit Price ($, cum)	3 Months	6 Months	1 Year	3 Years pa	5 Years pa	7 Years pa	Since Inception pa	Since inception - total
Asian Companies Fund	**7/2008**	**1.9774**	**-0.3%**	**-0.2%**	**10.7%**	**8.2%**	**11.9%**	**11.8%**	**15.6%**	**324.5%**
MSCI AC Asia ex Japan Net Total Return Index[2]			-1.8%	0.8%	14.1%	8.4%	12.9%	10.6%	8.6%	128.6%
Outperformance by the Fund			1.5%	-1.0%	-3.4%	-0.2%	-1.0%	1.2%	7.0%	195.9%

KEY POINTS

- Headline performance relatively subdued despite escalation of trade fears.
- Portfolio weighting to Macau increased after recent sell off in regional gaming companies.
- Continue to hold a positive view on Asia despite growing macro concerns.

PERFORMANCE

Headline performance was relatively subdued for the quarter. While the underlying equities portfolio was impacted by the broad-based selling witnessed across Asian markets, currency positioning offset a large part of the negative impact.

Asian equity markets experienced some of their sharpest declines since the start of 2016, which was the height of 'China hard landing' and 'oil crisis' fears, as net capital outflows returned to the region. Ongoing US/ China trade tensions acted as a headwind as investors contemplated the economic impact if negotiations are unable to be resolved amicably. China's Shanghai Composite declined 10% while the Korean KOSPI, dominated by industries linked to global trade, fell 9%.

The impact of rising US interest rates and a strengthening US Dollar also had a negative impact, particularly on some peripheral Asian markets. Hardest hit were the Philippines' PSEi which declined 10% and Vietnam's Ho Chi Minh Index down 18%, albeit after recording very strong returns since the start of 2016. The performance of both the Philippines and Vietnam markets highlight the role foreign capital flows have on emerging market performance. A strong US Dollar, rising interest rates and commodities have put pressure on many emerging market economies. This phenomenon is not just being felt in Asia, with Argentina, Turkey and Brazil also in the spotlight in recent months.

PORTFOLIO ACTIVITY

Pax Global, Baidu and Malaysian brewing holdings, Heineken Malaysia and Carlsberg Malaysia, provided positive contributions to performance. Baidu advanced 9% after first quarter earnings comfortably beat expectation and their US listed video stream subsidiary iQIYI performed strongly post-IPO. We expect the robust momentum being displayed in Baidu's core search and video stream businesses will continue in the foreseeable future, irrespective of China's macro conditions.

Heineken Malaysia rose 5%, buoyed by the surprise general election result that saw a change of government for the first time since the foundation of Malaysia in 1957. One of the first actions of the newly elected Pakatan Harapan ('Alliance of Hope') coalition was to eliminate the goods and services tax which, it is hoped, will boost consumption.

Positions sensitive to economic growth and regional trade were among those sold lower. Of note were KB Financial and Industrial and Commercial Bank of China which both fell 13% over the quarter despite confirmation of a rising interest rate environment globally, which will benefit our financial holdings initially through expanding net interest margins.

Investments in the gaming sector also detracted from performance. MGM China declined 10% while Nagacorp fell 12% over the quarter. Several factors have prompted investors to temper near-term growth expectations, most notably the prospects of a slowing Chinese economy and recent depreciation of the Chinese Yuan (lowering the purchasing power of the Chinese gambler). Macau's casino operators were also impacted by notably tighter monitoring of illegal UnionPay point-of-sale terminals (POS). The portfolio's gaming exposure, Macau in particular, was reduced materially at the beginning of 2018. During the latter stages of the June quarter we increased our exposure to Macau again initiating a position in Wynn Resorts.

Asian Companies Fund

OUTLOOK

The factors impacting markets in the first six months of this year are likely to remain throughout 2018. These will act as near-term headwinds for regional markets as investors try to gauge the flow-on effects to economic activity.

Trade, and more accurately fair trade, is not a new topic, however investor reactions this time have been far more pronounced. There are several reasons for this, most obvious being that negotiations involve the world's two largest economies, but also because trade issues between the two countries have long been glossed over causing significant imbalances which need to be addressed. Overlay this with the fact that negotiations are seemingly being played out as much on Twitter, or in front of the camera, as they are at the negotiating table has investors on edge. Market participants are not used to the level of hyperbole President Trump brings to the table and this heightened rhetoric inevitably changes how we view the topic. The strong performance of markets over the last several years and high market valuations also means the margin for error is small.

Predicting the internal machinations of trade negotiations is the most difficult aspect of the current market and the reality is in the short term it is virtually impossible. From a portfolio perspective, decisions based solely on predicting the outcome of such events are similarly likely to result in error.

We have been vocal over the past 12 months in calling out the dramatic shift in earnings expectations and markedly higher valuations which has made it more difficult to uncover genuine anomalies. Perhaps unsurprisingly, at a Hong Kong conference I attended in March 'synchronised global growth' was the most repeated phrase, suggesting an overwhelmingly positive sentiment. In the space of three months these attitudes have been fundamentally tested. Any meaningful correction in markets driven by fluctuations in these short-term sentiments will give us a chance to put capital to work.

During the quarter Chinese equities were front and centre with the country being granted an increased weighting in MSCI's global indices. The announcement served to highlighted how underweight global investors are when it comes to not only China but Asia more broadly. Approximately 350 new stocks were added to the global MSCI index, over 300 of those additions were Chinese companies (a-shares, US listed ADRs and Hong Kong h-shares). It is rare to see significant changes to indices like this which suggests gatekeepers like MSCI have the mix wrong and are scrambling to catch up. Investors remain under allocated to the main source of global GDP growth – after the recent changes China still accounts for only 3.7% MSCI All Countries World Index compared to the US at 53%.

Our approach to Asia remains very much a long-term one. We continue to believe Asia will remain the epicentre for global growth into the foreseeable future, as it has been better part of the last two decades. While growth in the US and Europe has been largely a function of a recovery from severe cyclical corrections, Asia provides one of the best places with consistent structural growth underpinning GDP. Most of the growth drivers will remain regardless of current debates.

Portfolio investments	Weighting
Consumer - Breweries	9.5%
Consumer - Other	10.7%
Online Classifieds & Ecommerce	18.5%
Financials	17.4%
Capital Goods & Commodities	12.4%
Gaming - Macau	7.3%
Gaming - Other	3.7%
Oil & Gas Infrastructure	9.5%
Other	2.8%
Long Equity Position	**91.8%**
Net invested position	91.8%

Current stock example
Heineken Malaysia
Dali Food Group
Baidu
HSBC Holdings
Turquoise Hill Resources
MGM China Holdings Ltd
NagaCorp
Sinopec Kantons

Currency exposure*	
USD	49.0%
HKD	31.7%
AUD	13.1%
INR	3.0%
Other	3.2%
Total exposure	100.0%

Kevin Bertoli - Asian Portfolio Manager

Australian Companies Fund

- **The Australian Companies Fund** aims to create long term wealth through a hand-picked portfolio of 15-25 predominantly Australian companies that we believe are trading at prices different to their intrinsic values.
- **The Fund's objective** is to provide long term capital growth and outperform the greater of the S&P/ASX 200 Accumulation Index or the RBA cash rate over rolling seven year periods. The Fund is not intended to replicate the index.

Fund category	Australian equities
Investment style	Fundamental, bottom-up research intensive approach
Number of stocks	As a guide, 15-25 stocks

Minimum investment	$20,000
Suggested investment time	7 years +
Inception date	20 January 2000
Unit trust FUM	$36.7m as at 30 June 2018
Australian equities FUM	$36.7m as at 30 June 2018

Australian Companies Fund

Uday Cheruvu
Australian Portfolio Manager

Fund performance[1] (net of fees)	Inception Date	Exit Price ($, cum)	3 Months	6 Months	1 Year	3 Years pa	5 Years pa	7 Years pa	10 Years pa	Since Inception pa	Since inception - total
Australian Companies Fund	**1/2000**	**1.9548**	**2.4%**	**-4.8%**	**-1.6%**	**5.9%**	**9.0%**	**9.3%**	**9.3%**	**10.2%**	**503.7%**
S&P / ASX 200 Accumulation Index			8.5%	4.3%	13.0%	9.0%	10.0%	9.1%	6.4%	8.3%	332.4%
Outperformance by the Fund			-6.1%	-9.1%	-14.6%	-3.1%	-1.0%	0.2%	2.9%	1.9%	171.3%

KEY POINTS

- The Fund produced a positive quarter, benefiting from the strong performance from NextDC, Latam Auto and BigTinCan.
- Portfolio holding Macquarie Group was the biggest contributor to performance, benefiting from increasing performance fees
- Relative performance was affected by the portfolio's cash position and lack of exposure to the strong resource sector.

PERFORMANCE

The Fund produced a positive quarter, benefiting from the strong performance from NextDC (+64.7%), Latam Auto (+57.9%) and BigTinCan (+43.5%). Latam and Big Tin Can both reported substantial increases in revenues and cash flows during the financial year, with Big Tin Can becoming cashflow positive and Latam on track to become cashflow positive by the end of 2018.

Macquarie was among the best performing stocks in the Fund, up 23.3% and 43.4% for the quarter and year respectively as increasing performance fees resulted in the company beating the market's earnings expectations.

The gains were counteracted by a cash drag and an avoidance of the resources sector, which continued to gain during the quarter.

PORTFOLIO ACTIVITY

At the start of the 2018 financial year we positioned the Fund with a belief that the implied 10%+ earnings growth expectations embedded in the valuations of industrial stocks were too high and as a result that valuations for the majority of domestic industrial stocks were full. At the same time we believed consumer spending would come under pressure given the high level of household debt and low wage growth, and there may be some effect of the US/ China trade tensions.

These views formed a basis for three major differences between the Fund's positioning and the broader S&P/ ASX200 Accumulation Index:

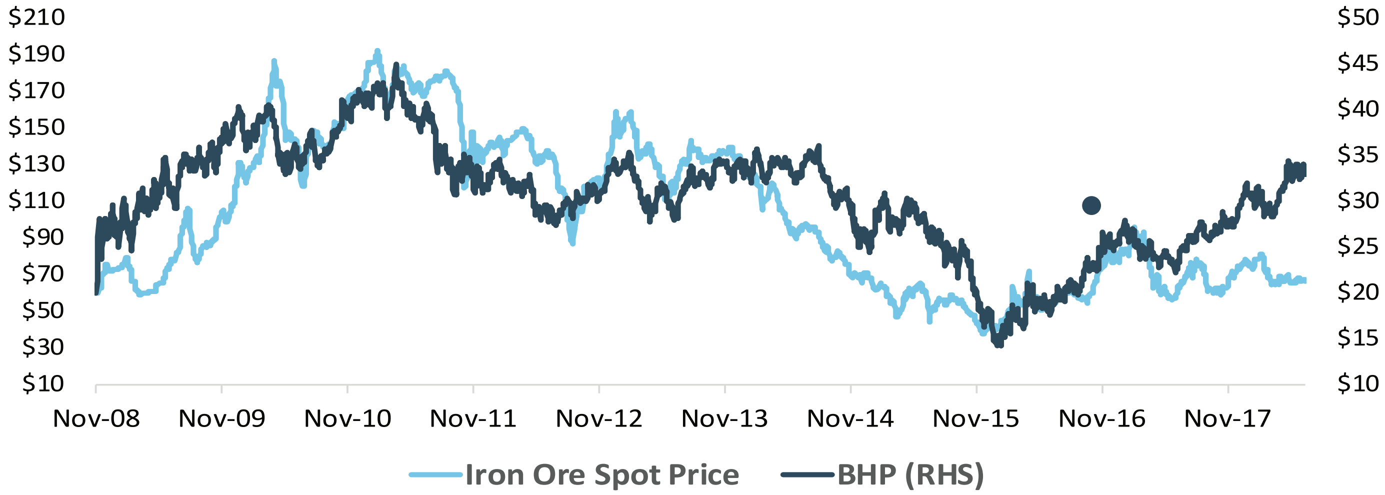
- An average net cash position of ~20%. We believed this substantial cash position would buffer investors in the event of a potential increase in market volatility and also provide the ability to re-invest if and when valuations for domestic stocks became attractive again.
- Avoiding commodities. Using long term commodity price assumptions, we were of the view they were more exposed to any global trade disruption.
- Not over-paying for industrial stocks with what we considered full valuations.

The performance of BHP is a good example of where we felt, and continue to feel, that resources companies are being missvalued.

Iron ore represents ~40% of BHP's earnings before interest and tax (EBIT) and has been the biggest driver of its earnings for the last 10 years. As a result, BHP's share price has tracked the changes in spot iron ore pricing closely for the last 10 years. However, this relationship has broken down significantly over the last 12 months. As indicated in the chart, the divergence between BHP share price and spot iron ore price is the widest it has been in the last 10 years. As a result, although our top down views on commodity prices have been broadly correct, the performance of resources stocks has been contrary to our expectations. It is this lack of fundamental support to prices that has seen us resist the sector.

Although industrial stocks (+4.7%) as a sector also underperformed the index, the valuations for a majority of these stocks remained higher than where we would be

Figure A: BHP vs Iron Ore ($AUD)



willing to invest them at. As a result, the cash position was not redeployed and thus created a drag of between 3 – 4% vs the Index.

In addition to this sector exposure impact, the Fund was also impacted by the poor performance of positions in PMP and Donaco which detracted approximately 8% combined. We have discussed these stocks in greater detail in prior quarterly reports.

We used the strength of NextDC and Macquarie to reduce our positions. We remain confident that being the market leaders in their segments, NextDC, Latam and BigTinCan will further improve their operational performance in the coming financial year.

OUTLOOK

We have finished the financial year with a net equity position of 72.5%. We continue to believe that there will be dislocations in the market arising from a trade war between China and US. In addition, we believe the market's elevated expectation for earnings growth to result in a wider dispersion in the performance of stocks. We believe this will create an opportunity to invest the cash position of the Fund into good quality companies at good prices.

Portfolio investments	Weighting
Domestic Banks	14.8%
International Banks	14.1%
Non Bank Financials	14.1%
Property	5.6%
Industrials	6.8%
Technology	7.4%
Internet	8.3%
Resources	0.0%
Other	1.4%
Long Equity Position	**72.5%**
Short Equity Position	0.0%
Net Invested Equities	72.5%
Total holdings	21

Current stock example
ANZ
Bank of America
EML
Centuria Industrial
Brambles
NextDC
iCar

Currency exposure*	
AUD	83.5%
EUR	9.1%
USD	7.4%
Total exposure	100.0%

*Stated at effective value.

Uday Cheruvu - Australian Equities Portfolio Manager

Enhanced Yield Fund

- **The Enhanced Yield Fund** aims to create long term wealth through identifying and profiting from market anomalies predominately in debt, corporate bond and hybrid security markets around the world. Originally developed to invest the portion of PM Capital's own money which would otherwise sit in cash, the Fund was opened to co-investors as we realised our problem – how to produce regular income and attractive returns with low volatility – was shared by many other investors.

- **The objective of the Fund** is to provide investors a return in excess of the Reserve Bank of Australia's (RBA) cash rate. The Fund aims to outperform the RBA cash rate with a low degree of volatility and minimal risk of capital loss.

Fund category	Fixed Income
Investment style	Fundamental, bottom-up research intensive approach
Investor profile	The Fund may be suitable for investors who seek a steady source of income, with a low degree of volatility, and an emphasis on capital preservation

Minimum investment	$20,000
Suggested investment time	2 years +
Inception date	1 March 2002
Unit trust FUM	$501.2m as at 30 June 2018
Fixed Income FUM	$769.2m as at 30 June 2018

Enhanced Yield Fund

Jarod Dawson
Global Yield Portfolio Manager

Fund performance (net of fees)	Inception Date	Exit Price ($, cum)	1 Month	3 Months	6 Months	1 Year	3 Years pa	5 Years pa	7 Years pa	10 Years pa	Since Inception pa	Total Return
Enhanced Yield Fund*	**02-2002**	**1.1306**	**0.3%**	**0.9%**	**1.3%**	**3.3%**	**3.8%**	**3.9%**	**4.3%**	**5.2%**	**5.9%**	**156.0%**
RBA cash rate			0.1%	0.4%	0.7%	1.5%	1.7%	2.0%	2.5%	3.1%	4.1%	92.6%
Excess			0.2%	0.5%	0.6%	1.8%	2.1%	1.9%	1.8%	2.1%	1.8%	63.4%
Enhanced Yield Fund (Class B units)**	**05-2017**	**1.1467**	**0.4%**	**1.0%**	**1.4%**	**3.7%**						**4.3%**
RBA cash rate			0.1%	0.4%	0.7%	1.5%						1.6%
Excess			0.3%	0.6%	0.7%	2.2%						2.7%

*Enhanced Yield Fund (Performance Fee Option). **Enhanced Yield Fund - Class B units (Management Fee Option).

KEY POINTS

- A solid year overall - key investments performing well.
- Still plenty of opportunities to invest capital.
- Patience, discipline and focussing on true anomalies critical going forward.

PERFORMANCE

The Fund notably outperformed the RBA cash rate over the quarter, in what was again a fairly volatile period for fixed income markets.

The global economy is moving along nicely, and as we noted in our quarterly report a year ago, we expected the "big engines of the US and Europe" to drive global growth - and to date this is playing out.

Something else that we have talked about extensively over the past couple of years has been the potentially destructive power of higher interest rates on bond portfolios. Indeed, since the middle of 2016, holding a significant amount of interest rate exposure has been a disaster for many investors.

For example, over the past two years the yields on 5 and 10 year US government bonds have risen by ~1.75% and ~1.50% respectively. Including accrued interest earned, this equates to an on-paper loss on these investments of ~6% and ~10% – I suspect not exactly the low risk investment many investors expected! This is why the Fund has been avoiding interest rate duration.

PORTFOLIO ACTIVITY

Several of the Fund's key investments performed particularly well over the past few months.

Our holding in the listed NAB Income Securities performed well (+8%) after NAB made comments in its half yearly, advising that it may frank the coupon on this security (meaningfully increasing its yield) post the loss if its Tier 1 capital eligibility at the end of 2021. There has also been speculation that this security could be redeemed over the next few years.

Additionally, our investment in Tesco's senior secured property debt also performed well (+5%) as it again reported solid quarterly sales figures and declining balance sheet debt. Consistent with our previous comments regarding Tesco positioning itself for a credit rating upgrade, Moody's announced that it has placed Tesco on positive watch for a move back up to investment grade.

The Fund's investment in the subordinated debt of the Irish National Asset Management Agency (NAMA) performed well during the quarter, as the Irish economy and particularly the Irish housing market strengthened further, and the number of borrowers in arrears continues to fall.

Our position in the senior secured inflation linked securities of Sydney Airport rallied as investors recognised the inherent value in having some protection against a rising inflation environment.

We added to quite a number of our holdings over the quarter, including Tattersalls senior debt at Bills + ~175bp (current yield ~4%), IAG hybrid securities at Bills + 290bp (current yield ~5%), Seek Senior debt at Bills + ~185bp (current yield ~4%), Allied Irish Bank

Subordinated Debt at Bills + ~240bp (current yield ~4.50%) and Next DC senior debt at Bills + ~300bp (current yield ~5%).

We exited our position in Spanish commercial property Hispania during the quarter, post the Blackstone backed private equity bid that we noted in the March quarterly report. This investment generated over a 50% total return for the Fund over the several years that we held it.

We also sold our holding in US commercial property company Kennedy Wilson, after generating a 10%+ return and its valuation now more closely reflecting its net tangible asset value.

OUTLOOK

The US official cash rate range of 1.75% -2% is still less than half its 20 year average prior to the GFC (~5%). Europe is only just getting started in terms of ceasing their quantitative easing program and moving towards a higher official cash rate (by their own admission probably at the back end of 2019). In this environment we continue to caution investors about taking on large amounts of interest rate risk over the next couple of years. With a backdrop of stronger growth and evidence of higher inflation starting to materialise, we think rates will continue to move higher (especially in the US and Europe).

On the credit side, as we have noted in previous reports, we think the easy money in credit has been made and having a broad exposure to credit markets in general will probably not get investors the outcomes they are looking for over the next couple of years.

We genuinely believe that investors will need to be far more selective when allocating capital to global credit markets over the next couple of years. Patience and discipline - focussing purely on market anomalies - will be key.

As evidenced above, we are still finding plenty of opportunities to invest capital, and given our broad mandate, we expect this to continue over the near to medium term.

The current credit spread on the Fund's assets sits at ~2% over the RBA cash rate, and with substantial capital available to take advantage of further anomalies as they come along, the Fund is in a strong position to deliver on its long term objectives.

Additionally, with effectively no interest rate duration, the Fund should be well insulated from the continued normalisation of global interest rates. Indeed, it should benefit as its floating rate investments reset in line with higher rates over time.

Duration	
Interest rate*	0.17
Average term to maturity*	2.33

Regional allocation	
Australia	31.4%
Europe	10.5%
United Kingdom	7.2%
North America	6.5%
New Zealand	1.9%
Cash	42.5%

Portfolio Investments	Weighting**	Average yield	Average spread to RBA
Cash	**42.5%**	**2.30%***	**0.80%***
Corporate bonds	**49.9%**	**4.08%***	**2.58%***
Fixed	0.0%*		
Floating	100.0%*		
Hybrids	**6.7%**	**4.71%***	**3.21%***
Fixed	0.0%*		
Floating	100.0%*		
Equity income strategies	**0.9%**		
Total exposure	100.0%		

* These numbers are estimated and provided as a guide only

** Fixed / Floating proportions are determined after the effect of interest rate swaps.

Yield security maturity profile	
0-1 Year	45.2%
1-2 Years	22.6%
2-3 Years	8.1%
3-4 Years	10.6%
4 Years +	13.5%

Jarod Dawson - Global Yield Portfolio Manager

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PM Capital

Important information

This Quarterly Report is issued by PM Capital Limited (ABN 69 083 644 731, AFSL No. 230222) as responsible entity for the:

PM Capital Global Companies Fund
ARSN 092 434 618

PM Capital Asian Companies Fund
ARSN 130 588 439

PM Capital Australian Companies Fund
ARSN 092 434 467

PM Capital Enhanced Yield Fund
ARSN 099 581 558

the 'Fund', or collectively the 'Funds' as the context requires.

The Quarterly Report contains summary information only to provide an insight into how and why we make our investment decisions. This information is subject to change without notice, and does not constitute advice or a recommendation (including on any specific security or other investment position mentioned herein).

The Quarterly Report does not take into account the objectives, financial situation or needs of any investor which should be considered before investing. Investors should consider a copy of the current Product Disclosure Statement ('PDS') which is available from us, and seek their own financial advice prior to making a decision to invest. The PDS explains how the Funds' Net Asset Value is calculated. Returns are calculated from exit price to exit price (inclusive of the reinvestment of distributions) for the period from inception to 31 December 2017 and represent the combined income and capital return. The investment objective is expressed after the deduction of fees and before taxation. The objective is not a forecast, and is only an indication of what the investment strategy aims to achieve over the medium to long term. While we aim to achieve the objective, the objective and returns may not be achieved and are not guaranteed. Past performance is not a reliable guide to future performance and the capital and income of any investment may go down as well as up due to various factors, including market forces.

The Index for the Global Companies Fund is the MSCI World Net Total Return Index in Australian dollars, net dividends reinvested. The Index for the Asian Companies Fund is the MSCI AC Asia ex Japan Net Total Return Index in Australian dollars, net dividends reinvested. See www.msci.com for further information on the MSCI indices. The Index for the Australian Companies Fund is the S&P/ASX 200 Accumulation Index. See www.asx.com.au for further information. The Index for the Enhanced Yield Fund is RBA Cash Rate. See www.rba.gov.au for further information.

1. Past performance is not a reliable indicator of future performance.

2. The Asian region (ex-Japan) includes Hong Kong, China, Taiwan, Korea, Indonesia, India, Sri Lanka, Malaysia, Philippines, Thailand, Vietnam, Pakistan and Singapore, but excludes Japan. The Company may also obtain exposure to companies listed on other global exchanges where the predominant business of those companies is conducted in the Asian region (ex-Japan).

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